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THE ACCOUNTING SYSTEM

OF OHIO

A Summary Review

of

Present Conditions and Needs

Submitted

to the

Auditor of State

by the

Ohio Institute for Public Efficiency

January 10, 1917.

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OHIO INSTITUTE FOR PUBLIC EFFICIENCY
HARTMAN BUILDING
COLUMBUS, OHIO

January 10, 1917.

Hon. Vic Donahey,
Auditor of State,
Columbus, Ohio.

Dear Sir:

In accordance with our conversation with you, we have made a brief review of the present accounting system of the state, centering in your office, and submit herewith a summary of present conditions, together with general recommendations as to the main steps in our judgment necessary to bring the state's accounting methods into accord with the best modern practice.

We have avoided going into technicalities or details, thinking that these would be superfluous at this time.

Yours very truly,

L. A. James

Chief Accountant

LAJ-c

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PRELIMINARY STATEMENT

As was well stated in the annual report of the Auditor of State for 1914, the accounting system in use in Ohio has been the development of many years of confused, haphazard and unscientific procedure. Under these circumstances, it is but natural that the laws governing this subject, passed at different times and having various objects in view, should be lacking in consistency and fail to compose a harmonious system which will meet modern demands.

For this reason, a review has been made of the present methods and procedure in order to place before the Auditor of State, the Governor, and the Legislature, a general summary of existing conditions and the general measures which are considered to be necessary to enable Ohio to measure up to the best modern standards of accounting practice.

A number of forward steps have been taken by the present Auditor of State. Nevertheless, as the Auditor is

in a position to realize, such results to be done. It will be understood that in the statements of present defects, no criticism of individuals is intended, the only aim being to point out what needs to be done in the interests of greater efficiency.

REVIEW OF PRESENT CONDITIONS

1. Scope of Auditor's Authority

It was apparently intended through such provisions of law as Section 241 of the General Code, to make the Auditor of State the chief accounting official of the state, with power to prescribe suitable accounting methods throughout the state and its political subdivisions. If such was the intent, it seems, so far as the state government is concerned, to have been frustrated, at least in part, by other provisions, giving independent powers to specified departments.

As a result, it becomes impossible for the Auditor of State to bring about, except by cooperation, the installation of a completely unified accounting system for the state government as a whole, which will enable him from month to month, quarter to quarter, and year to year, to present to the Governor and to the public the comprehensive and accurate information which they are entitled to have.

If the Governor as chief executive is not provided with the necessary instruments for exercising his executive powers with full effectiveness, a high degree of efficiency and economy cannot be expected. As a means for providing the Governor with the necessary instruments, a unified accounting system is essential. The only practical hope of securing a unified accounting system lies in centralized authority in the hands of the Auditor of State.

3. Revenues Not Accrued

Owing doubtless to the lack of legal authority, the office of the Auditor of State does not now secure daily reports of revenue or of the charges made to individuals or corporations for services, commodities, licenses, permits, etc. While some of these charges may be paid at once, some remain unpaid; in other words, credit is extended. If unpaid, they should appear in the records as accounts receivable. The total revenues are then the gross earnings of the state, although the charges may have been made by individual departments. At present the reports are on a cash basis and deal with receipts only, irrespective of the date charged to individuals or corporations.

At present, the accounts receivable not being properly set up in the records, any statement of the state's revenues as at any particular date cannot be complete. In consequence, the financial condition of the state on that date is not accurately reflected.

1. Inadequate Accounting Control over Contingent Liabilities

The same lack of full legal authority apparently prevents the Auditor of State from exercising an effective accounting control over orders and contracts, in order to prevent overdrafts on appropriations.

A proper procedure would require that orders about to be issued or contracts about to be entered into should first be submitted to the Auditor of State for his certification that funds are available for meeting the obligation when due. The necessary amount would then be set aside for this purpose until the claims are finally audited and paid.

This procedure is not now carried out. Hence the Auditor is not in a position to prevent the incurring of obligations in excess of appropriations or of the cash to meet them during the fiscal year. Neither is he in a position to know the outstanding obligations of the state at the close of each month or fiscal year.

At present, however, the Auditor is not in possession of the necessary information regarding either accounts receivable or accounts payable, and is consequently unable at any time to exhibit accurately the true financial condition of the state.

5. Value of Property for Comptroller Records

No complete record is maintained of the properties owned by the state, and their value. Such a record is essential to the proper discharge of the duties of custodianship imposed upon state officials. The lack of such a record tends to remove definite responsibility and to encourage losses from carelessness or dishonesty.

1. Impossibility of Deriving Adequate Financial Statements from Present Records

As will have been inferred from the preceding statements the present accounting system of the State of Ohio, centering in the office of the Auditor of State, is operated on a "cash" basis, on which the information developed relates principally to the cash received and cash paid out, little or no recognition being given to accounts receivable or accounts payable. This practice does not permit the preparing and issuing of monthly, quarterly or annual statements showing the revenues and actual cost of government for any given period. Under these circumstances, it is not surprising that controversies arise between successive administrations as to the supposed financial condition of the State and the responsibility therefore. With a proper system of accounting and reporting, all questions of fact would automatically be placed outside the realm of controversy or uncertainty.

6. Classification of Accounts

In actual practice, it is likely that the classifications of accounts employed in the recommendations submitted by the Governor to the General Assembly will be followed by the General Assembly in making its appropriations. This will compel the use of the same classification in important parts of the accounting system.

It is manifest that a uniform system of classification should be used throughout the State Government, and if possible, its political subdivisions also. Whatever classification is adopted should be capable of meeting all accounting requirements. If the Auditor of State is to be in fact the chief accounting official of the State, he should be given the power of prescribing the classification of accounts for all budgetary and accounting purposes in connection with the State Government. Only in this way can satisfactory results be obtained.

RECOMMENDATIONS

To meet the difficulties referred to, the following recommendations are submitted:-

1. The statutes should be so amended as to make the Auditor of State unmistakably the controlling accounting officer of the state, with full power to devise, require and install accounting systems, forms of records, and procedure in all state departments, and to require and obtain from them such daily or other reports as he deems necessary.

2. Making use of this power, the Auditor of State should take immediate steps to reorganize the accounting system of the state, placing it upon the accrual basis, and establishing his control over revenues and contingent liabilities.

3. The statutes should require that an inventory be taken of the state's properties, and

that their value be set up in the books of account, and be thereafter kept up currently.

4. The statutes should provide that monthly quarterly, and annually financial reports should be prepared for the Governor, heads of departments, and the public. Such reports should indicate as clearly as possible the financial condition of the state, the cost of operating the several departments, the unencumbered balances of appropriations, and other significant information.

5. The statutes should give the Auditor of State sole jurisdiction over the classification of accounts.

The declaration of the Auditor of State in a recent report that "the supreme need of Ohio is a fiscal system" finds confirmation in our review of present conditions. Substantiation is also found for his further assertion that if the Auditor of

State is enabled to exercise his true functions, as intended by the laws and the constitution, a considerable saving can be made for the state.

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